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September 17, 2007

VIA: MESSENGER

Kelly Morgan
Water Quality Control Division
Colorado Department of Public Health and Environment
4300 Cherry Creek Drive South
Denver, Colorado 80246-1530

Re: Response to Water Quality Control Division Letter of August 10, 2007
Gold King Mine

Dear Ms. Morgan:

On behalf of Colorado Goldfields Inc. ("Goldfields") which has an option to acquire the Gold King Mine and Mogul Mine, and will be the operator, therefore; and San Juan Corp. ("San Juan") as owner of the Gold King Mine and Mogul Mine we submit this response to your letter of August 10, 2007. Let us first clarify that Goldfields and San Juan are not currently conducting mining operations at the Gold King Mine. Although Goldfields plans to undertake mining activities at Gold King Mine, no such mining has commenced and when such mining plans are developed we will confer with the Division regarding discharges ex pollutants from point sources to waters of the state for which a discharge permit would be required.

Goldfields and San Juan provide the following responses to your specific requests for information:

Division Request, No. 1:

Please provide specific information regarding any current activities you, Colorado Goldfields Inc., San Juan Corporation, and /or Salem Minerals are undertaking at the Site. This includes channeling mine discharge flow, the location of the channels, and how and where you are directing mine discharge flow. In addition, please provide information on dump consolidation and remediation activities at the mine.



Response to Request No. 1:

In June, 2007 we were notified by the Colorado Division of Reclamation, Mining and Safety ("DRMS") that avalanches at the Gold King Mine site carried debris through and past the Gold King Mine site last winter. Moreover, Goldfields was ordered by DRMS to correct two conditions at the site immediately, otherwise DRMS would undertake the remediate actions with emergency response funds. We corrected those conditions, including re-cutting a ditch channel and removing debris so ditch water would again flow away from the main mine dump. We undertook those DRMS mandated actions after consultation with U.S. Environmental Protection Agency ("EPA"). Meeting with Steve Way at BLM.

Specifically, DRMS directed that Goldfield undertake the following actions to mitigate the impacts of the avalanches: "(1) get the culvert in the North Fork that goes under the access road cleaned out and flowing so the access road and toe of the dump isn't washed out completely, and (2) collect and divert the portal discharge from running over the top and out slopes of the dump in an uncontrolled fashion." *See Email from Bruce Stover, DRMs dated June 26, 2007 Re: M-86-013 Gold King Maintenance, Exhibit 1 hereto.*

Division Request, No. 2:

Please provide specific information regarding any current activities you, Colorado Goldfields Inc., San Juan Corporation, and/or Salem Minerals are undertaking at the Site. Include all exploration plans, including plans to reconstruct mine portals, plans to clear out existing mine drifts, and proposals to remove plugs from the American Tunnel.

Response to Request No. 2:

As mentioned previously, Goldfields and San Juan are not currently undertaking any mining activities at the Gold King Mine which would cause discharges to waters of the state.

The Division's requests for Goldfields' plans for the site, are beyond the Division's jurisdiction and our voluntary response thereto shall not be considered or construed as a present or future waiver of our rights to contest the Division jurisdiction or rights to such information. However, in the spirit of cooperation only, we provide the information regarding Goldfields' preliminary plans for the Gold King Mine. Goldfields commented on its preliminary plans with Animas River Stakeholders Group and EPA (Region 8).

We have requested E.P.A. to consider entering into an Administrative Order On Consent to address the potentially imminent threat to public health posed by a potential "blowout" of underground blockages at the Gold King Mine. To correct such blockages, Goldfields would try to locate and shut off direct water flows from the Sunnyside Mine Pool that are currently flowing into the Gold King Mine. The evidence that Sunnyside Mine waters are now discharging into



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the Gold King Mine is water quality data showing high manganese, zinc and cadmium contents. These constituents are not present in the Gold King veins but high concentrations of these constituents are found in the flooded 2150 vein of the Sunnyside Mine, which is discharging into the Gold King workings. Goldfields outlined its proposed work plan for E.P.A. See Exhibit 2. You will note that no mining operations are to be conducted, and no increase of water flows is to occur.

We are concerned that the Consent Decree governing Sunnyside Mine discharges was lifted, especially because the evidence indicates that these Sunnyside Mine Pool discharges have now increased the number of discharge locations, volume of flow and metal contents. These increases continue. Our engineering and environmental assessment of these discharges indicate that the only practical solution to this environmental problem is for Sunnyside Gold Corporation and the Division to re-open the American Tunnel and lower the level of the Sunnyside Mine Pool so discharges no longer occur, i.e. pre-1995 conditions. Additionally, the one discharge point from the re-opened American Tunnel would have to be treated. We presented this action plan for the responsible parties to undertake at the July meeting of the Animas River Stakeholders Group. We have no plans to re-open the American Tunnel.

Division Request, No. 3:

Please provide information regarding expected mine discharge, and how you plan to manage this flow. In addition, please include any water quality analysis and data, and information regarding how you intend to treat any mine drainage.

Response to Request No. 3:

The previous response describes the mine discharges occurring due to the Sunnyside Mine pool and its current connection with Gold King Mine and the American Tunnel - both connections that we believe should be eliminated by the appropriate parties.

Again, we assert that information regarding plans, especially our preliminary plans is beyond the Division's jurisdiction and our response hereto shall not be considered or construed as a present or future waiver of our rights to contest the Division's jurisdiction or rights to such information.

Other than as provided in this letter, we have no further information on an "expected mine discharge" and how Goldfields intends to manage such flows. However, please note that the activities Goldfields proposes to EPA would locate and confirm the sources of the increased mine flows and have the responsible parties, Sunnyside and the Division, undertake remedial activities to eliminate such offsite mine drainage from connecting to and flowing into, the Gold King Mine.



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Division Request, No. 4:

Please provide information regarding yours, Colorado Goldfield Inc.'s, San Juan Corporation's, and /or Salem Mineral's intent to obtain the proper CDPS discharge and stormwater permits. If you are conducting activities that trigger CDPS permit requirements, the Division expects you will file the appropriate permit applications within 30 calendar days of receipt of this letter. Attached are copies of permit applications for Industrial individual Metal Mining and the General Permit for Stormwater Discharges Associated with Metal Mining.

Response to Request No. 4:

Goldfields intends to obtain CDPS discharge and stormwater permits, as necessary, for discharges from the Gold King and Mogul Mine to waters of the state. Goldfields is preparing stormwater permit applications and will timely apply for such permits.

Moreover, as discussed in response to Request No. 2, when Goldfields has completed its plan for operations, we will confer with the Division regarding appropriate discharge and stormwater permits for those discharges that are caused directly by Goldfields' mining activities. If the Division now, or in the future, has specific facts or data that indicates that permits may sooner be required for the Gold King Mine, we request that the Division so notify Goldfields and provide such data and information, so we can take appropriate action.

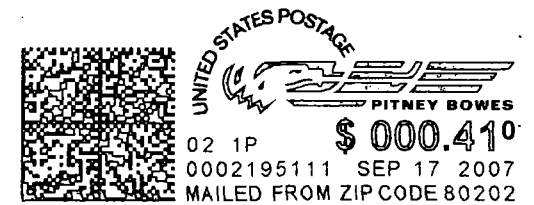
Sincerely,

Ronda Sandquist

RS:jl

cc: Todd Hennis
Greg Brand
Andrew Neuhart
Scott Klarich
Matt Czahor
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